

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ANDERSON COUNTY HOSPITAL
DECEMBER 31, 2014 AND 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the financial performance of Anderson County Hospital provides a narrative overview of the Hospital's financial activities for the years ended December 31, 2014 and 2013. Please read it in conjunction with the accompanying basic financial statements.

Financial highlights

The Hospital's net position increased by \$371,112 or 1.4 percent and \$21,956,879 or 490 percent during the 2014 and 2013 fiscal years, respectively.

The net position of Anderson County Hospital Foundation (the Foundation), a component unit of the Hospital, decreased by \$61,411 or 15.5 percent in 2014, and increased by \$48,110 or 13.8 percent in 2013.

Using these financial statements

The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by or for the benefit of the Hospital, and resources restricted for specific purposes by contributors, grantors, and indenture agreements.

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. For purposes of these two statements, revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in it. The Hospital's net position - the difference between assets and liabilities - may be thought of as one way to measure its financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in the Hospital's physical plant and measures of the quality of facilities it provides to the community, as well as local economic factors, to assess the overall health of the Hospital.

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Assets, liabilities, and net position

The Hospital's statements of net position as of the end of each of the last three years are summarized as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets			
Current assets	\$ 214,812	\$ 176,367	\$ 378,592
Assets limited as to use	4,858,831	22,079,586	799,875
Capital assets, net	24,320,593	5,286,103	3,803,808
Other assets	<u>385,808</u>	<u>385,808</u>	<u>385,808</u>
Total assets	<u>\$ 29,780,044</u>	<u>\$ 27,927,864</u>	<u>\$ 5,368,083</u>
Liabilities			
Current liabilities	\$ 2,837,047	\$ 1,200,122	\$ 449,261
Long-term obligations	<u>136,409</u>	<u>292,266</u>	<u>440,225</u>
Total liabilities	<u>\$ 2,973,456</u>	<u>\$ 1,492,388</u>	<u>\$ 889,486</u>
Net position	<u>\$ 26,806,588</u>	<u>\$ 26,435,476</u>	<u>\$ 4,478,597</u>

Net capital assets increased during 2014 and 2013 due to purchases related to the construction of a new facility.

On April 2, 2013, a majority of the qualified electors of Anderson County, Kansas (the County), approved, at a special bond election, the question whether to issue general obligation bonds of the County in an amount not to exceed \$25,455,000 to pay the cost of constructing a new hospital facility and to advance refund a portion of the County's Series 2005-A General Obligation Refunding and Improvement bonds. The County issued its General Obligation Refunding and Improvement Bonds, Series 2013-A, on August 1, 2013, in the amount of \$25,455,000. Upon issuance of the bonds, the Hospital received \$24,097,774 from the bond proceeds which was recorded as a capital contribution.

The Hospital's net position increased by \$371,112 or 1.4 percent and \$21,956,879 or 490 percent during the 2014 and 2013 fiscal years, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Operating results and changes in net position

The Hospital's operating results and changes in net position for each of the last three years are summarized as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 595,282	\$ 582,772	\$ 541,694
Operating expenses	<u>363,542</u>	<u>550,821</u>	<u>753,624</u>
Operating income (loss) before provision for impairment of capital assets	231,740	31,951	(211,930)
Provision for impairment of capital assets	<u></u>	<u>(2,149,000)</u>	<u></u>
Operating income (loss)	231,740	(2,117,049)	(211,930)
Investment income	1,289	1,453	3,874
Interest expense	(18,885)	(115,106)	(33,386)
Noncapital grants and contributions	1,732	5,685	7,046
Gain on disposal of capital assets	236	1,281	1,723
Capital grants and contributions	<u>155,000</u>	<u>24,180,615</u>	<u>122,359</u>
Change in net position	<u>\$ 371,112</u>	<u>\$ 21,956,879</u>	<u>\$ (110,314)</u>

Typically, the most significant component of the overall change in the Hospital's net position is its operating loss - generally, the difference between rent income and the expenses incurred in connection with the rental activity. However, capital contributions from the County were the most significant component of the Hospital's change in net position during 2013. The Hospital also received significant contributions from the Foundation during 2014 and 2012 for acquisition of equipment.

Hospital operations moved to a new facility on January 29, 2015. Management of the Hospital has determined that the old hospital facility and many items of equipment currently in use have been impaired. The book value of these capital assets prior to recognition of the impairment provision was \$2,149,000. A provision for impairment of capital assets in that amount was recognized during 2013 because management of the Hospital does not expect anything will be received upon demolition and disposal of these capital assets.



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Anderson County Hospital

We have audited the accompanying financial statements of the business-type activity and discretely presented component unit of Anderson County Hospital (the Hospital), a component unit of Anderson County, Kansas, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express our opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity and discretely presented component unit of Anderson County Hospital as of December 31, 2014 and 2013, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 1 through 3 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information on page 21 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Wendling Noel Nelson & Johnson LLC

Topeka, Kansas
April 16, 2015

FINANCIAL STATEMENTS

ANDERSON COUNTY HOSPITAL
STATEMENTS OF NET POSITION
December 31,

	2014		2013	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
CURRENT ASSETS				
Cash	\$ 92,542	\$ 44,557	\$ 54,361	\$ 125,426
Assets limited as to use	33,863		32,555	
Prepaid expenses	4,450		7,482	
Other receivables	83,957		81,969	
Total current assets	<u>214,812</u>	<u>44,557</u>	<u>176,367</u>	<u>125,426</u>
ASSETS LIMITED AS TO USE				
Internally designated	424,422	290,377	425,092	270,919
Under indenture agreements - held by trustee	33,863		32,555	
By contributors				
For nurse training	213,837		216,748	
For capital acquisitions	<u>4,220,572</u>	<u>5</u>	<u>21,437,746</u>	<u>5</u>
	4,892,694	290,382	22,112,141	270,924
Less amount required to meet current liabilities	<u>33,863</u>		<u>32,555</u>	
Total assets limited as to use	<u>4,858,831</u>	<u>290,382</u>	<u>22,079,586</u>	<u>270,924</u>
CAPITAL ASSETS, NET	<u>24,320,593</u>	<u>-</u>	<u>5,286,103</u>	<u>-</u>
OTHER ASSETS				
Due from lessee	<u>385,808</u>	<u>-</u>	<u>385,808</u>	<u>-</u>
Total assets	<u>\$29,780,044</u>	<u>\$ 334,939</u>	<u>\$27,927,864</u>	<u>\$ 396,350</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET POSITION

	2014		2013	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
CURRENT LIABILITIES				
Current installments of long-term debt	\$ 90,000	\$ -	\$ 85,000	\$ -
Current portion of capital lease obligations	66,249		63,490	
Accounts payable	18,429		19,100	
Construction costs payable	2,659,768		1,028,735	
Accrued interest payable	<u>2,601</u>		<u>3,797</u>	
Total current liabilities	2,837,047	-	1,200,122	-
LONG-TERM DEBT, less current maturities	94,677		184,285	
CAPITAL LEASE OBLIGATIONS, less current portion	<u>41,732</u>		<u>107,981</u>	
Total liabilities	<u>2,973,456</u>	-	<u>1,492,388</u>	-
NET POSITION				
Invested in capital assets - net of related debt	24,027,936		4,845,347	
Restricted				
For debt service	33,863		32,555	
Expendable for capital acquisitions	4,220,572	5	21,437,746	5
For specific operating activities	213,337		216,748	
Unrestricted	<u>(1,689,120)</u>	<u>334,934</u>	<u>(96,920)</u>	<u>396,345</u>
Total net position	<u>26,806,588</u>	<u>334,939</u>	<u>26,435,476</u>	<u>396,350</u>
Total liabilities and net position	<u>\$29,780,044</u>	<u>\$ 334,939</u>	<u>\$27,927,864</u>	<u>\$ 396,350</u>

ANDERSON COUNTY HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year ended December 31,

	2014		2013	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Operating revenues				
Medical office building rent	\$ 100,367	\$ -	\$ 105,370	\$ -
Hospital rent	<u>494,915</u>		<u>477,402</u>	
Total operating revenues	<u>595,282</u>	<u>-</u>	<u>582,772</u>	<u>-</u>
Operating expenses				
Supplies and other expenses	54,264	18,669	85,038	10,174
Depreciation and amortization	<u>309,278</u>		<u>465,783</u>	
Total operating expenses	<u>363,542</u>	<u>18,669</u>	<u>550,821</u>	<u>10,174</u>
Operating income (loss) before provision for impairment of capital assets	231,740	(18,669)	31,951	(10,174)
Provision for impairment of capital assets			<u>(2,149,000)</u>	
Operating income (loss)	<u>231,740</u>	<u>(18,669)</u>	<u>(2,117,049)</u>	<u>(10,174)</u>
Nonoperating revenues (expenses)				
Investment income	1,289	21,289	1,453	13,941
Interest expense	(18,885)		(115,106)	
Noncapital grants and contributions	1,732	70,969	5,685	44,343
Gain on disposal of capital assets	<u>236</u>		<u>1,281</u>	
Total nonoperating revenues (expenses)	<u>(15,628)</u>	<u>92,258</u>	<u>(106,687)</u>	<u>58,284</u>
Excess of revenues over expenses (expenses over revenues) before capital grants and contributions	216,112	73,589	(2,223,736)	48,110
Capital grants and contributions	<u>155,000</u>	<u>(135,000)</u>	<u>24,180,615</u>	
Change in net position	<u>371,112</u>	<u>(61,411)</u>	<u>21,956,879</u>	<u>48,110</u>
Net position at beginning of year				
As previously reported	26,435,476	396,350	4,490,705	348,240
Prior period adjustment for change in accounting principle			<u>(12,108)</u>	
As restated	<u>26,435,476</u>	<u>396,350</u>	<u>4,478,597</u>	<u>348,240</u>
Net position at end of year	<u>\$ 26,806,588</u>	<u>\$ 334,939</u>	<u>\$ 26,435,476</u>	<u>\$ 396,350</u>

The accompanying notes are an integral part of these statements.

ANDERSON COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS
Year ended December 31,

	2014		2013	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Cash flows from operating activities				
Receipts from lessee	\$ 593,290	\$ -	\$ 577,841	\$ -
Payments for supplies and services	(51,903)	(18,669)	(81,209)	(10,174)
Net cash provided (used) by operating activities	<u>541,387</u>	<u>(18,669)</u>	<u>496,632</u>	<u>(10,174)</u>
Cash flows from noncapital financing activities				
Noncapital grants and contributions	<u>1,732</u>	<u>70,969</u>	<u>5,685</u>	<u>44,343</u>
Cash flows from capital and related financing activities				
Acquisition of capital assets	(17,712,735)		(3,356,574)	
Capital grants and contributions	155,000	(135,000)	24,180,615	
Proceeds from sale of capital assets	236		1,281	
Principal payments on capital lease obligations	(63,490)		(60,860)	
Principal payments on long-term debt	(85,000)		(80,000)	
Interest paid	(19,689)		(26,819)	
Payment of financing costs			(88,881)	
Net cash provided (used) by capital and related financing activities	<u>(17,725,678)</u>	<u>(135,000)</u>	<u>20,568,762</u>	<u>-</u>
Cash flows from investing activities				
Change in assets limited as to use	17,219,136	(7,992)	(21,287,551)	(10,142)
Investment income received	<u>1,604</u>	<u>9,823</u>	<u>2,528</u>	<u>11,816</u>
Net cash provided (used) by investing activities	<u>17,220,740</u>	<u>1,831</u>	<u>(21,285,023)</u>	<u>1,674</u>
Net change in cash and cash equivalents	38,181	(80,869)	(213,944)	35,843
Cash and cash equivalents at beginning of year	<u>54,361</u>	<u>125,426</u>	<u>268,305</u>	<u>89,583</u>
Cash and cash equivalents at end of year	<u>\$ 92,542</u>	<u>\$ 44,557</u>	<u>\$ 54,361</u>	<u>\$ 125,426</u>

The accompanying notes are an integral part of these statements.

ANDERSON COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS - CONTINUED
Year ended December 31,

	<u>2014</u>		<u>2013</u>	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss) before provision for impairment of capital assets	\$ 231,740	\$ (18,669)	\$ 31,951	\$ (10,174)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities				
Depreciation and amortization	309,278		465,783	
Changes in				
Receivables and prepaid expenses	1,040		(4,954)	
Accounts payable	<u>(671)</u>	<u></u>	<u>3,852</u>	<u></u>
Net cash provided (used) by operating activities	<u>\$ 541,387</u>	<u>\$ (18,669)</u>	<u>\$ 496,632</u>	<u>\$ (10,174)</u>

The accompanying notes are an integral part of these statements.

ANDERSON COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

1. Reporting entity

Anderson County Hospital (the Hospital) is a county hospital located in Garnett, Kansas. The Hospital was organized in 1947 and is operated under Kansas statutes as an entity legally separate from Anderson County (the County). Its Board of Trustees is appointed by the Board of County Commissioners of the County. The Hospital can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the County. For financial statement purposes, the Hospital is a discretely presented component unit of the County.

On October 1, 1997, the Hospital's Board of Trustees leased to Saint Luke's Hospital of Garnett (Saint Luke's) all of the real estate, equipment, and facilities constituting the Hospital for a period of eight years and it also transferred to Saint Luke's all nonrestricted current assets and current liabilities as then recorded on the books of the Hospital. Saint Luke's may, in its sole discretion, extend the term of the lease for up to three additional terms of five years each. The lease has been extended to September 30, 2015. Saint Luke's will pay to the Board of Trustees an amount equal to three percent of the net revenues it realizes from the hospital operation. Upon termination of the lease, Saint Luke's will return to the Board of Trustees all nonrestricted current assets and current liabilities as then recorded on the books of the hospital operation. A comparison will also then be made of the amount of current assets less current liabilities at the commencement and termination of the lease. If the amount of net current assets has decreased, Saint Luke's will pay an amount equal to that decrease to the Board of Trustees. If the amount of net current assets has increased, the Board of Trustees will pay an amount equal to that increase to Saint Luke's.

On June 24, 2013, the lease was amended and restated (Restated Lease) in anticipation of the County incurring \$25,455,000 of debt to finance construction of a new hospital facility. The Restated Lease is for an initial term of ten years commencing on the date that Saint Luke's occupies the new facility. The obligations of the Hospital and Saint Luke's remain in effect as stated in the lease until then. Effective January 29, 2015 (the date of occupancy) Saint Luke's will make annual lease payments to the Hospital of \$1,024,000 in monthly installments of \$85,333. The Restated Lease will automatically renew for five additional five-year periods unless Saint Luke's gives notice two years prior to the expiration of the initial or any renewal term.

The component unit discussed in A2 is included in the Hospital's reporting entity because of the nature and significance of its relationship with the Hospital.

ANDERSON COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2014 and 2013

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

2. Component unit

The financial statements include the financial data of the discretely presented component unit described below. The component unit is reported separately to emphasize that it is legally separate from the Hospital.

Anderson County Hospital Foundation (the Foundation) is a not-for-profit corporation formed in January 2000 to promote and advance the welfare of the Hospital.

3. Basis of accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

4. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for replacement of capital assets or for purchase of additional capital assets, over which the Board retains control and may at its discretion subsequently use for other purposes; assets held by a trustee under an indenture agreement; assets restricted by contributors to use for training nurses; assets restricted by contributors for repayment of bonded indebtedness of the Hospital; and assets restricted by contributors for capital acquisitions. Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets.

5. Capital assets

Capital assets (including assets recorded as capital leases) are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets. The estimated lives used are generally in accordance with the guidelines established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

The Hospital accounts for impairment of capital assets in accordance with Governmental Accounting Standards Board (GASB) Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries," which requires that capital assets be reviewed for impairment whenever events or changes in circumstances indicate that the book value of a capital asset may not be recoverable.

ANDERSON COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2014 and 2013

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

6. Costs of borrowing

Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

7. Grants and contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for specific operating purposes or capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

8. Net position

Net position of the Hospital is classified into three components. "Net position invested in capital assets net of related debt" consists of capital assets net of accumulated depreciation reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Restricted expendable net position" is the noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, contributors, or others external to the Hospital, including amounts deposited with trustees as required by indenture agreements. "Unrestricted net position" is the remaining net position that does not meet the definitions of the other two components of net position.

9. Operating revenues and expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with the rental of the medical office building and the hospital facility, which is the Hospital's principal activity. Nonexchange revenues, including noncapital grants and contributions, are reported as nonoperating revenues. Operating expenses are all expenses incurred in connection with the rental of the medical office building and the hospital facility, other than financing costs.

10. Income taxes

The Hospital is a county hospital and is, therefore, exempt from federal income taxes under Section 115 of the Internal Revenue Code.

11. Cash and cash equivalents

Cash and cash equivalents include all cash and certificates of deposit of all funds, excluding any such amounts included in assets limited as to use.

ANDERSON COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2014 and 2013

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

12. Subsequent events

The Hospital has evaluated subsequent events through April 16, 2015, which is the date the financial statements were available to be issued.

NOTE B - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Hospital, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury Bills and Notes, and the State Treasurer's investment pool. Kansas statutes also require that collateral be pledged for bank deposits with a fair market value equal to 100 percent of the uninsured amounts, and must be assigned for the benefit of the Hospital.

At December 31, 2014, the carrying amount of the Hospital's bank deposits, including certificates of deposit, was \$976,384 and the bank balances were \$981,813. Of the bank balances, \$657,816 was covered by federal depository insurance, and \$323,997 was covered by collateral held by a third-party bank, but not registered in the Hospital's name.

The Hospital's bank deposits are included in the financial statements under the following categories:

Cash	\$ 92,542
Assets limited as to use	
Internally designated	420,031
Under indenture agreement - held by trustee	816
By contributors for nurse training	213,197
By contributors for capital acquisition	<u>249,798</u>
Total bank deposits	<u>\$ 976,384</u>

ANDERSON COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2014 and 2013

NOTE C - ASSETS LIMITED AS TO USE

Investments are stated at fair value. The composition of the Hospital's assets limited as to use is as follows:

	<u>2014</u>	<u>2013</u>
Internally designated		
Cash and certificates of deposit	\$ 420,031	\$ 425,092
State Treasurer's investment pool	<u>4,391</u>	<u></u>
	<u>\$ 424,422</u>	<u>\$ 425,092</u>
Under indenture agreement - held by trustee		
Cash	\$ 816	\$ 816
Money market funds	<u>33,047</u>	<u>31,739</u>
	<u>\$ 33,863</u>	<u>\$ 32,555</u>
By contributors for nurse training		
Cash and certificates of deposit	\$ 213,197	\$ 216,256
Interest receivable	<u>640</u>	<u>492</u>
	<u>\$ 213,837</u>	<u>\$ 216,748</u>
By contributors for capital acquisitions		
Cash	\$ 249,798	\$ 118,031
State Treasurer's investment pool	3,970,774	21,319,256
Interest receivable	<u></u>	<u>459</u>
	<u>\$ 4,220,572</u>	<u>\$ 21,437,746</u>

The composition of the Foundation's assets limited as to use is as follows:

	<u>2014</u>	<u>2013</u>
Internally designated		
Money market funds	\$ 5,136	\$ 1,623
Fixed income mutual funds	<u>285,241</u>	<u>269,296</u>
	<u>\$ 290,377</u>	<u>\$ 270,919</u>
By contributors for capital acquisitions		
Cash	<u>\$ 5</u>	<u>\$ 5</u>

ANDERSON COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2014 and 2013

NOTE D - CAPITAL ASSETS

Capital asset additions, retirements, and balances are as follows:

	2014			
	<u>Beginning balance</u>	<u>Transfers and additions</u>	<u>Retirements and impairments</u>	<u>Ending balance</u>
Land	\$ 69,271	\$ -	\$ -	\$ 69,271
Buildings	747,170	126,217		873,387
Major movable equipment	3,057,263	171,785		3,229,048
Ambulance equipment	269,319			269,319
Totals at historical cost	<u>4,143,023</u>	<u>298,002</u>	<u>-</u>	<u>4,441,025</u>
Less accumulated depreciation and amortization				
Buildings	460,755	37,098		497,853
Major movable equipment	2,383,994	229,587		2,613,581
Ambulance equipment	135,681	42,593		178,274
	<u>2,980,430</u>	<u>309,278</u>	<u>-</u>	<u>3,289,708</u>
Construction in progress	1,162,593	(11,276)	-	1,151,317
	<u>4,123,510</u>	<u>19,045,766</u>		<u>23,169,276</u>
Capital assets, net	<u>\$ 5,286,103</u>	<u>\$19,034,490</u>	<u>\$ -</u>	<u>\$24,320,593</u>

	2013			
	<u>Beginning balance</u>	<u>Transfers and additions</u>	<u>Retirements and impairments</u>	<u>Ending balance</u>
Land	\$ 69,271	\$ -	\$ -	\$ 69,271
Land improvements	47,954		47,954	
Buildings	5,621,536	14,186	4,888,552	747,170
Fixed equipment	1,552,397		1,552,397	
Major movable equipment	4,112,649	259,651	1,315,037	3,057,263
Ambulance equipment	204,863	123,955	59,499	269,319
Totals at historical cost	<u>11,608,670</u>	<u>397,792</u>	<u>7,863,439</u>	<u>4,143,023</u>
Less accumulated depreciation and amortization				
Land improvements	46,744	580	47,324	
Buildings	3,746,062	126,053	3,411,360	460,755
Fixed equipment	1,000,147	46,163	1,046,310	
Major movable equipment	3,281,410	252,529	1,149,945	2,383,994
Ambulance equipment	154,723	40,458	59,500	135,681
	<u>8,229,086</u>	<u>465,783</u>	<u>5,714,439</u>	<u>2,980,430</u>
Construction in progress	3,379,584	(67,991)	2,149,000	1,162,593
	<u>424,224</u>	<u>3,699,286</u>		<u>4,123,510</u>
Capital assets, net	<u>\$ 3,803,808</u>	<u>\$ 3,631,295</u>	<u>\$ 2,149,000</u>	<u>\$ 5,286,103</u>

ANDERSON COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2014 and 2013

NOTE D - CAPITAL ASSETS - Continued

On April 2, 2013, a majority of the qualified electors of the County approved, at a special bond election, the question whether to issue general obligation bonds of the County in an amount not to exceed \$25,455,000 to pay the cost of constructing a new hospital facility and to advance refund a portion of the County's Series 2005-A General Obligation Refunding and Improvement bonds. The County issued its General Obligation Refunding and Improvement Bonds, Series 2013-A, on August 1, 2013, in the amount of \$25,455,000. Upon issuance of the bonds, the Hospital received \$24,097,774 from the bond proceeds which was recorded as a capital contribution.

The Hospital has agreed to transfer the lease payments received from Saint Luke's Hospital under the Restated Lease to the County for the purpose of making principal and interest payments on the bonds as they come due.

Construction in progress consists primarily of costs incurred to date for the construction of a new hospital facility. Hospital operations moved to the new facility on January 29, 2015. Management of the Hospital has determined that the old hospital facility and many items of equipment currently in use have been impaired. The book value of these capital assets prior to recognition of the impairment provision was \$2,149,000. A provision for impairment of capital assets in that amount was recognized during 2013 because management of the Hospital does not expect anything will be received upon demolition and disposal of these capital assets.

A summary of outstanding contract commitments for the construction project at December 31, 2014, is as follows:

Total commitment	\$ 23,145,915
Cost incurred to date	<u>(22,277,725)</u>
Remaining commitment	<u>\$ 868,190</u>

NOTE E - DUE FROM LESSEE

Unrestricted assets and liabilities transferred to Saint Luke's on October 1, 1997, were as follows:

Cash	\$ 104,238
Patient accounts receivable	1,006,972
Estimated third-party payor settlements	121,413
Supplies	98,007
Prepaid expenses	22,642
Other receivables	2,699
Advances to physicians	56,247
Accounts payable	(656,224)
Salaries and wages payable	(76,388)
Accrued vacation pay	(93,798)
Line-of-credit loan	<u>(200,000)</u>
Due from lessee	<u>\$ 385,808</u>

ANDERSON COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2014 and 2013

NOTE F - LONG-TERM DEBT

Long-term debt and capital lease obligations are summarized as follows:

	<u>2014</u>	<u>2013</u>
City of Garnett, Kansas Industrial Revenue Bonds Series 2006A, issued December 15, 2006, in the original amount of \$500,000, 5.625% term bonds due October 1, 2016, with mandatory redemptions beginning April 1, 2011	\$ 185,000	\$ 270,000
Unamortized deferred refunding loss	(323)	(715)
	<u>184,677</u>	<u>269,285</u>
Less current maturities of long-term debt	(90,000)	(85,000)
	<u>\$ 94,677</u>	<u>\$ 184,285</u>
Capital lease obligations, imputed interest rates of 3.00% to 6.00%, collateralized by leased equipment with an unamortized cost of \$217,690 at December 31, 2014	\$ 107,981	\$ 171,471
Less current portion of capital lease obligations	(66,249)	(63,490)
	<u>\$ 41,732</u>	<u>\$ 107,981</u>

On May 4, 1995, the City of Garnett, Kansas (the City), issued its Taxable Industrial Revenue Bonds, Series 1995, in the amount of \$450,000, on behalf of the Hospital pursuant to a trust indenture and a lease agreement dated April 15, 1995. The proceeds of the Bonds were used, together with other available funds of the Hospital, to acquire, construct, and equip a medical office building.

On December 15, 2006, the City issued \$645,000 in Industrial Revenue Bonds, Series 2006A and 2006B, on behalf of the Hospital. The proceeds of the 2006 bonds were used, together with other available funds of the Hospital, for the purpose of providing funds to (1) advance refund the \$297,000 of 1995 bonds outstanding at December 15, 2006, (2) pay costs related to the issuance of the 2006 bonds, and (3) pay for the costs of medical office building renovations. The advance refunding increased the total future debt service requirements of the Hospital by \$35,725. This resulted in an economic loss (the difference between the present value of the future debt service payments on the old and new debt) of \$6,412.

The trust indenture and the lease agreement require the Hospital to transfer to a trustee, on a monthly basis, specified amounts which, when combined with interest earned on the respective funds held by the trustee, will provide sufficient funds to pay the bond principal and interest on the appropriate due dates.

With the commencement of the lease described in Note A1, Saint Luke's became the sub-lessee of the medical office building. Rental payments from Saint Luke's are equal to the amounts required to be transferred by the Hospital to the trustee which will provide sufficient funds to pay the bond principal and interest on the appropriate due dates.

ANDERSON COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2014 and 2013

NOTE F - LONG-TERM DEBT - Continued

On June 24, 2013, in conjunction with the Restated Lease, the Hospital entered into an amended and restated sublease (Restated Sublease) with Saint Luke's for the medical office building effective upon Saint Luke's occupancy of the new hospital facility with the term being the same as the Restated Lease. Under the Restated Sublease, rental payments from Saint Luke's will continue to be equal to the amounts required to be transferred by the Hospital to the trustee to pay the bond principal and interest as they become due until the last payment is made on the bonds, at which time rent will be set equal to the fair market rental value of the medical office building.

The following is a summary of changes in long-term debt and capital lease obligations:

	<u>Long-term debt</u>	<u>Capital lease obligations</u>
Outstanding at January 1, 2013	\$ 350,000	\$ 232,331
Principal payments	<u>(80,000)</u>	<u>(60,860)</u>
Outstanding at January 1, 2014	270,000	171,471
Principal payments	<u>(85,000)</u>	<u>(63,490)</u>
Outstanding at December 31, 2014	<u>\$ 185,000</u>	<u>\$ 107,981</u>

Scheduled annual debt service requirements are as follows:

	<u>Long-term debt</u>			<u>Capital lease obligations</u>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2015	\$ 90,000	\$ 9,141	\$ 99,141	\$ 69,117
2016	<u>95,000</u>	<u>4,078</u>	<u>99,078</u>	42,388
	<u>\$ 185,000</u>	<u>\$ 13,219</u>	<u>\$ 198,219</u>	111,505
Less amount representing interest on the capital lease obligations				<u>(3,524)</u>
				<u>\$ 107,981</u>

ANDERSON COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2014 and 2013

NOTE F - LONG-TERM DEBT - Continued

Total interest costs are summarized as follows:

	<u>2014</u>	<u>2013</u>
Total interest incurred	\$ 18,493	\$ 25,694
Debt issuance costs incurred		88,881
Amortization of deferred refunding loss	<u>392</u>	<u>531</u>
Interest expense	<u>\$ 18,885</u>	<u>\$ 115,106</u>

NOTE G - RISK MANAGEMENT

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

SUPPLEMENTARY INFORMATION

ANDERSON COUNTY HOSPITAL
BALANCE IN DEPOSITORY COMPARED WITH DEPOSITORY SECURITY
December 31, 2014

	Goppert State Bank		Patriots Bank	Farmers State Bank
	<u>Time deposits</u>	<u>Held in name of trustee</u>	<u>Time deposits</u>	<u>Time deposits</u>
Bank balance				
General checking	\$ 105,815	\$ -	\$ -	\$ -
General donation account	32,623			
Funds held by trustee		816		
Funded depreciation checking			22,422	
Funded depreciation certificates of deposit	75,000		322,401	
Funded depreciation savings			1	
Project fund	209,158			
Restricted fund checking			11,577	
Restricted fund certificates of deposit			45,000	157,000
Total deposits	422,596	816	401,401	157,000
Less F.D.I.C coverage	<u>250,000</u>	<u>816</u>	<u>250,000</u>	<u>157,000</u>
Balance subject to pledging of securities	172,596	-	151,401	-
Market value of securities pledged	<u>1,501,517</u>		<u>245,000</u>	<u>3,351</u>
Market value of securities pledged in excess of depository requirements	<u>\$ 1,328,921</u>	<u>\$ -</u>	<u>\$ 93,599</u>	<u>\$ 3,351</u>